Fractal Energy Trading Crypto MasterClass

Module Five
Single Timeframe
Price Action Examples

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Table of Contents

Introduction to Single Timeframe Analysis

In the last module I lobbed a lot of terminology and concepts at you like “PSH” or “Change in Polarity” and we didn’t stop to really work through everything and drill these concepts into your head. **Now we do**.

There’s probably not a more important skill that we need to impart to you than being able to read price action on a single timeframe.

And we need you to learn this “stone cold” before you move on to the following material and significantly complicate it by a factor of four by adding multiple simultaneous timeframes.

In this module we are just going to go over several examples on the Daily chart of a price chart, noting the swing highs and swing lows and understanding the price points necessary to identify in order to either:

- **Identify the current trend.**
- **Identify the price points necessary to be “taken out” to confirm the trend going forward.**
- **Identify the price points necessary to be taken out to show that the trend has changed.**

Regardless of the price chart “source” that we select, i.e. equities, crypto, or forex….these rules and principles apply because price is PRICE no matter what. And price is the only thing that truly counts. You can use these techniques in any market that you want to going forward. Let’s get started….

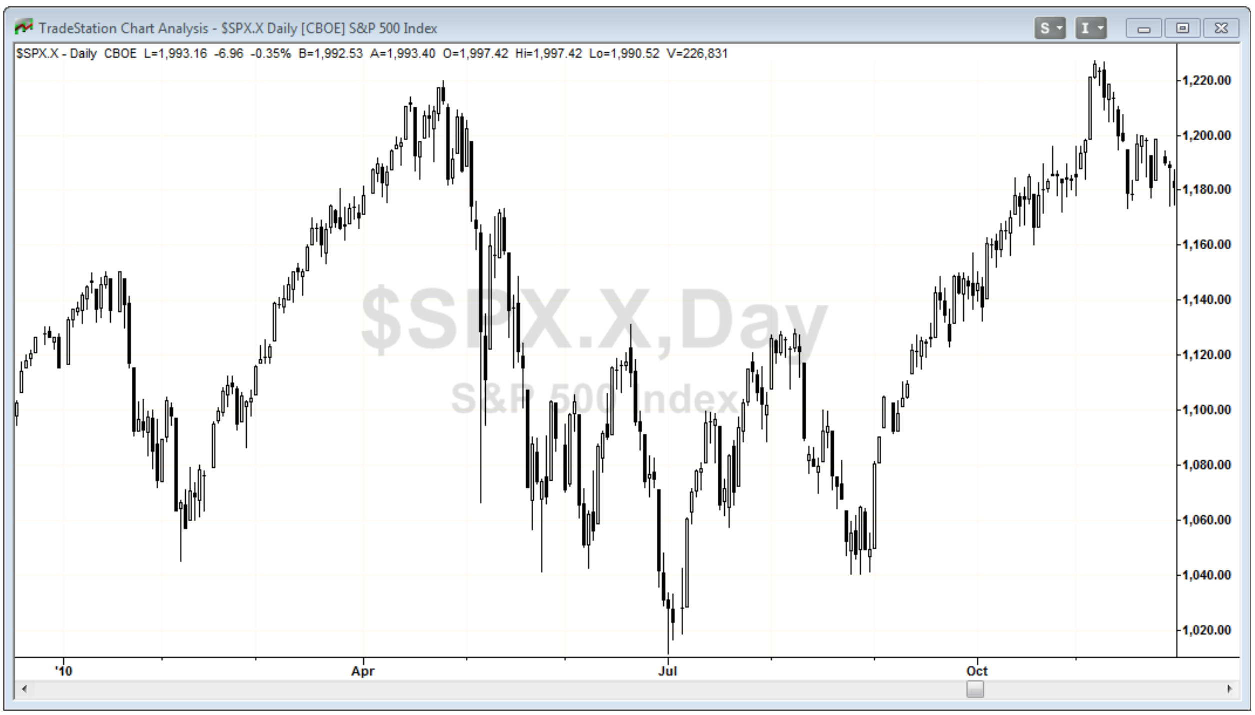
Example One - Uptrend Continuation

Our first example is also probably our most common one….a current uptrend is in place, and it encounters a little bit of profit-taking or weakness, getting folks all riled up and ready to short the Market….yet the former uptrend continues. This type of move is especially prevalent in the presence of a major Monthly/Weekly uptrend.

Establishing the Uptrend

The first thing that we want to do is to establish the uptrend. As we can see in Figure 1, the price is now showing a series of higher highs and higher lows on the right side of the chart, the only area that we currently care about:

Figure 1



Really the key to this uptrend was the important “higher low” that was put in around the end of August, right before a new high was printed in late September.

Framing In the Price Action

With the price at the hard right edge in November, what will need to happen for the price to remain in an uptrend? We’re already seeing the price pull back after a very strong move higher from the summer into the fall, and traders are getting nervous and skittish as the price falls from the highs.

The first thing that we need to do is to “frame” in the price action by identifying the prior swing highs and lows, which will help us determine if & when the price is continuing the uptrend

Figure 2

Now that we’ve identified the levels, it’s simply a matter of seeing whether the price breaks above and “takes out” the PSH with the green line, or whether the price continues to fall below the PSL with the blue line. You have “framed in” the price range.

What’s important at this point is that you “release” the price to do whatever it will do. A trader will not “insist” that the price must go up or down at this point; they are simply waiting for it to show what it will do next. This is not about predicting the future; this is about preparing for action and anticipating the action that you will take whenever the price shows you the signal.

The Outcome

In Figure 3, we can see the eventual outcome of what price did, which was to “take out” the PSH at the green line (at the point shown by the blue arrow) and “confirm” the uptrend once again to the upside.

Figure 3

You can also see that once the price confirmed the resumption of the uptrend, it moved quite strongly in that direction. This is the price action process that we'll follow every time that we see a current uptrend, regardless of the actual timeframe that we're monitoring.

Example Two - Downtrend Continuation

This example shows an interesting situation which can be a little more confusing to one that doesn't yet understand how the different timeframes can interact in a trend, which is a very common problem that I see across the board.

In Figure 4 below, we have a chart moving into a downtrend with a series of Lower Highs and Lower Lows:

Figure 4

The problem is that the price has just thrown us a curveball, which is very common to see in the midst of a downtrend or "corrective" price action. Price action during uptrends is usually very quiet and orderly as money flows continue to come into the Market and funds and institutions quietly accumulate shares in their intended investments.

All of that gets turned upside down during corrections or other market-negative events. To see what I mean, we'll have to frame in the price action again.

Framing in the Price

Once we frame in the price action of the most recent move, we can see what the problem is. The downtrend stopped short of continuing by putting in a "higher low" in mid-December, which is now our PSL or “prior swing low” marked with the blue line in Figure 5:

Figure 5

On top of the mixed signal with the “higher low” at the PSL, we have an “in-character” signal of a lower high at the PSH, shown with the green dashed line. This is a good example of a “sideways” or “consolidation” move, usually seen after a strong primary move like we saw. We have broken the series of “lower lows”, however we still have a “lower high.” The price range is now defined between the blue and green dashed lines.

What will happen next? Is the price still in a downtrend, will it continue to stay in a sideways consolidation pattern, or will it once again move to a downtrend? Again, far too many of us get caught in a guessing game, thinking that we have some insight into the future. We usually end up leaning the wrong way, typically influenced by the “herd” and the media, and are bitterly disappointed when our “guess” to market direction does not pan out.

In our system of framing in the price action, we simply need to watch for whether the price breaks above the green line to show a potential move/change of polarity to an uptrend, or we watch the price break the blue line to the downside to confirm that the downtrend is in control once again.

The Outcome

Figure 6 shows the outcome as the price breaks below the blue line and the PSL to make a “new low” which goes along with our “lower high” at the PSH to once again enforce our view that a downtrend is in play.

Figure 6

As in the previous example, once the price created a new low, it moved in a hurry. This is a strong sign that many traders were caught off-guard and had to quickly sell out of their “long and wrong” positions.

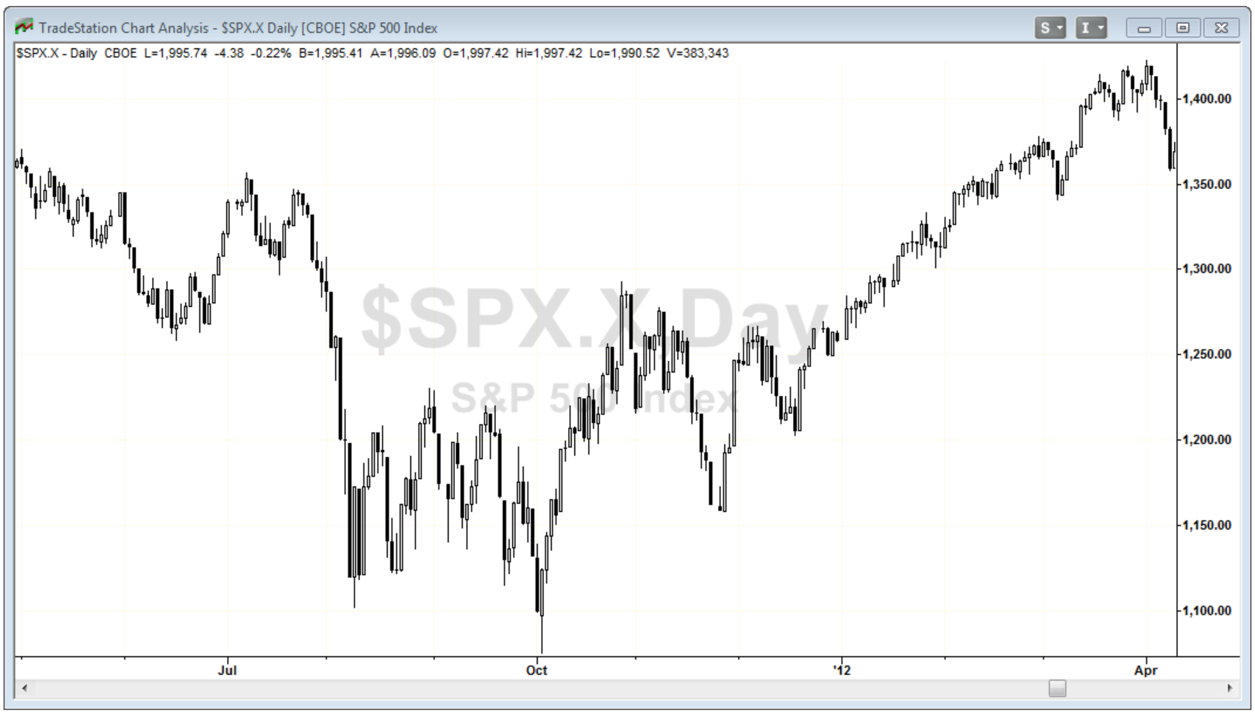
Market moves are caused by a continual sea of traders being positioned on the wrong side of the market with too large of a position, and being forced to quickly close out the position against their favor.

Example Three - Uptrend Reversing to a Downtrend

With the Market generally trending higher over time, what we need to be vigilant for is one of these interminable uptrends reversing to a downtrend. It will usually happen during periods of Euphoria where either the Market runs out of Bulls temporarily, or we see a dramatic shift in fundamentals, something which doesn't happen too often.

In Figure 7 we see the classic uptrend which was spawned after a strong downside correction:

Figure 7



So far we see nothing surprising as all of the "short interest" is cooked off as traders continue to cover their short positions. In fact, there is hardly one pullback along the way, which further puts the pinch on shorts as well as frustrating Bulls looking for a pullback or dip in the price to get long.

Finally, we do see what amounts to a decent pullback in early April, several months after the bottom of the correction. Is this a viable pullback to buy, or is it too late? Let's frame in the price action.

Framing in the Price Action

As we can see in Figure 8, we have a series of higher highs and higher lows and the price is pulling back to a level near the Prior Swing Low which is marked by the blue line. At this point many folks might be anticipating a move to a downtrend, but it's not confirmed yet because we haven't seen any lower highs nor lows below the PSL.

Figure 8

We quite clearly have two levels at the PSH and PSL, marked by the green and blue dotted lines, which would either verify the continuation of the uptrend (green) or a potential change in polarity to the downside (blue).

Update 1

In Figure 9, we start to see the bounce off of the level of the PSL and we're *anticipating* (but need to verify) that the price will continue above the PSH and make a new high, leading to a continuation of the current uptrend. Any failure of the price to go above the green dotted line at the PSH might mean either a "lower high" which would lead to a potential change of polarity and/or a move to a sideways consolidation if the price is trapped between the PSH and PSL.

We'll see what the outcome of this dilemma is in Figure 10.

Figure 9

[The Outcome]()

Figure 10

Figure 10 shows the eventual outcome. The price was unable to get above the original PSH around the beginning of April, shown in Figure 9, so the price printed a “lower high” as shown in Figure 10 and then “took out” the PSL at the dotted blue line to form a “lower low”, verifying the change in polarity to a downtrend.

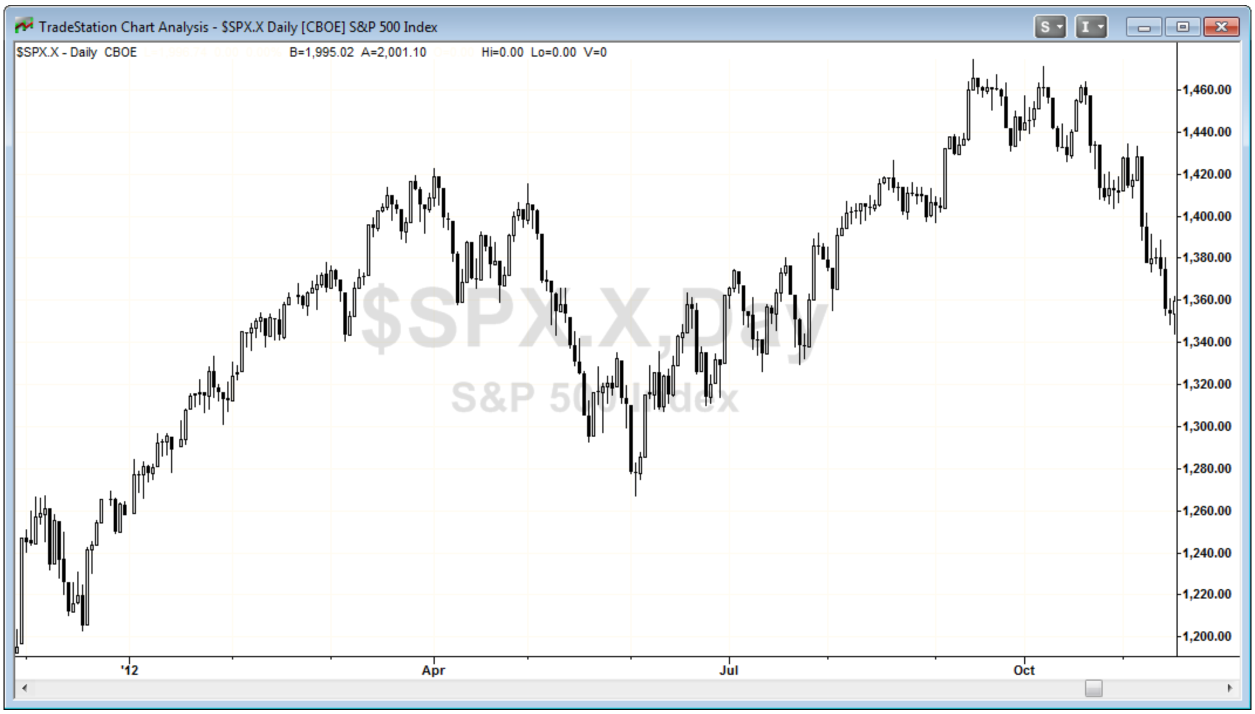
The really important point here is that everyone in the planet was anticipating and EXPECTING a new high to be printed when the price was at that point in Figure 9. When that did not pan out, the confusion led to very strong selling due to trader panic. And this is how moves in the market are made; the market waits until everyone is on the wrong side of the boat holding too much cargo, then it shifts the wind and the boom knocks everyone overboard. We see this happen time after time, regardless of the timeframe of the chart. And this will not change going forward.

Example Four - Downtrend Reversal to an Uptrend

As we pointed out in the last example, most of the time the market trends higher over time. When we do see a downtrend on the Daily chart that's going against a longer timeframe uptrend, we want to be watching carefully for signs of a polarity change to the upside, as this will provide us with a big opportunity.

In Figure 11, we clearly have a primary downtrend on the daily chart to the downside!

Figure 11



At this point we don't know if this will turn into a WEEKLY downtrend yet, which would require a lower high and a lower low to set up on that chart. It's far too soon to make that call; we're just focused on the Daily chart for now.

As always, we need to frame in the price action to see what levels that we need to watch out for…

Framing in the Price Action

Figure 12 shows how we've framed in the price action; we clearly have a series of lower highs and lower lows, and the PSH and PSL levels are clearly identifiable. The battle lines have been drawn now that we've framed in the price.

Figure 12

For this price action to move into an uptrend, we'll need to see the price move to a series of higher highs and higher lows. Due to the long distance between the current "low" and the PSH, it might require a "higher low" to be printed first before a new high is printed. We'll see what happens next.

Update 1

In Figure 13 we see that the price has come up to re-test the prior swing low at about the 1410 level, but we haven't seen it print a "higher high" above the PSH yet, nor has the price printed a "higher low" yet to create a new PSL.

The primary downtrend is still in place, however the bounce off the bottom is noticeable and many traders might have bought this dip already, prior to confirmation of the trend change back to an uptrend.

Figure 13

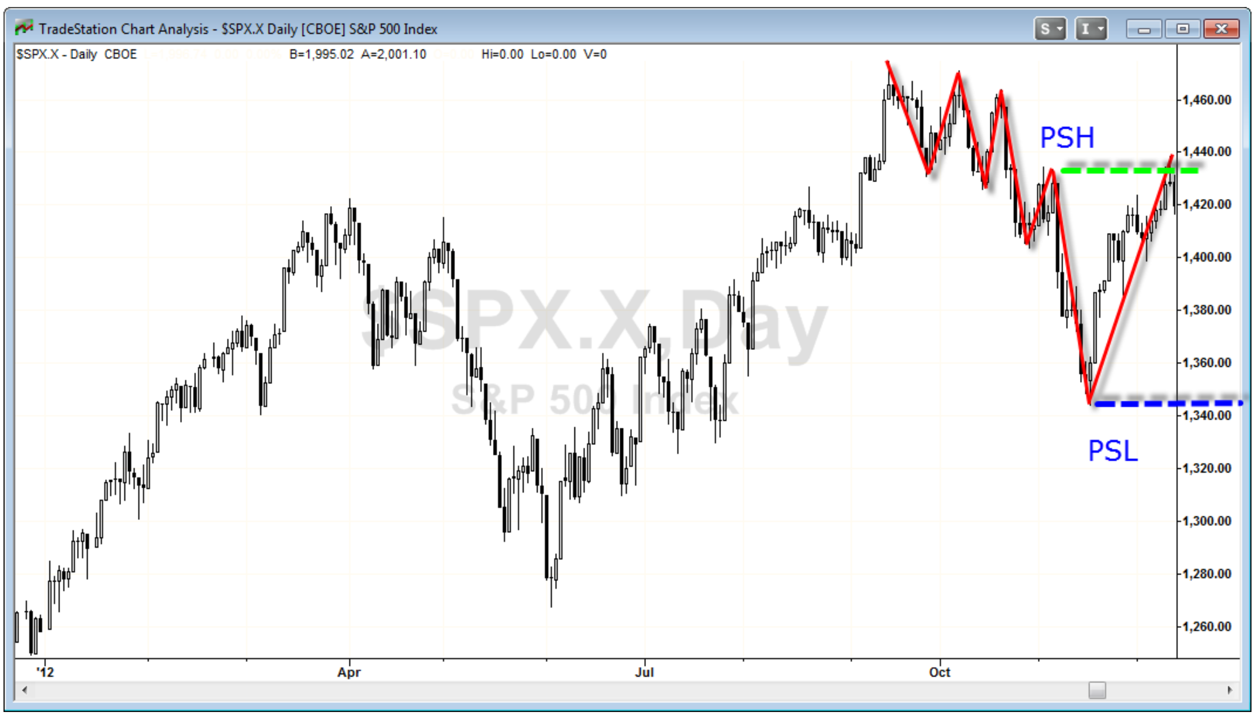
Update 2

OK, now we have something of interest happening at Update 2, shown below in Figure 14. The price has come ALL the way up to “take out” the PSH above the 1430 level.

Is this an uptrend yet? Has the polarity changed? Technically, no. The price is still in an undetermined state, because we have not yet seen the price move in a SERIES of higher highs and higher lows.

The probability of moving to an uptrend, however, has taken a quantifiable leap higher. Any “low” from here is highly likely to print a “higher low” which would place the chart another step closer to moving to an uptrend.

Figure 14



The Outcome

Figure 15

As we expected, the price pulled back to create a significant "higher low" at the point marked by the PSL, at about the 1400 level. From there the price immediately took out the PSH at the point marked by the pink arrow, verifying/confirming the change in polarity back to an uptrend. The former primary daily chart downtrend had now been converted to an uptrend, or a "change in polarity" to the upside again.

This is probably the most common reversal pattern that we'll see, so I'd recommend practicing identifying this reversal pattern over and over again, on the hard right edge of some major charts.

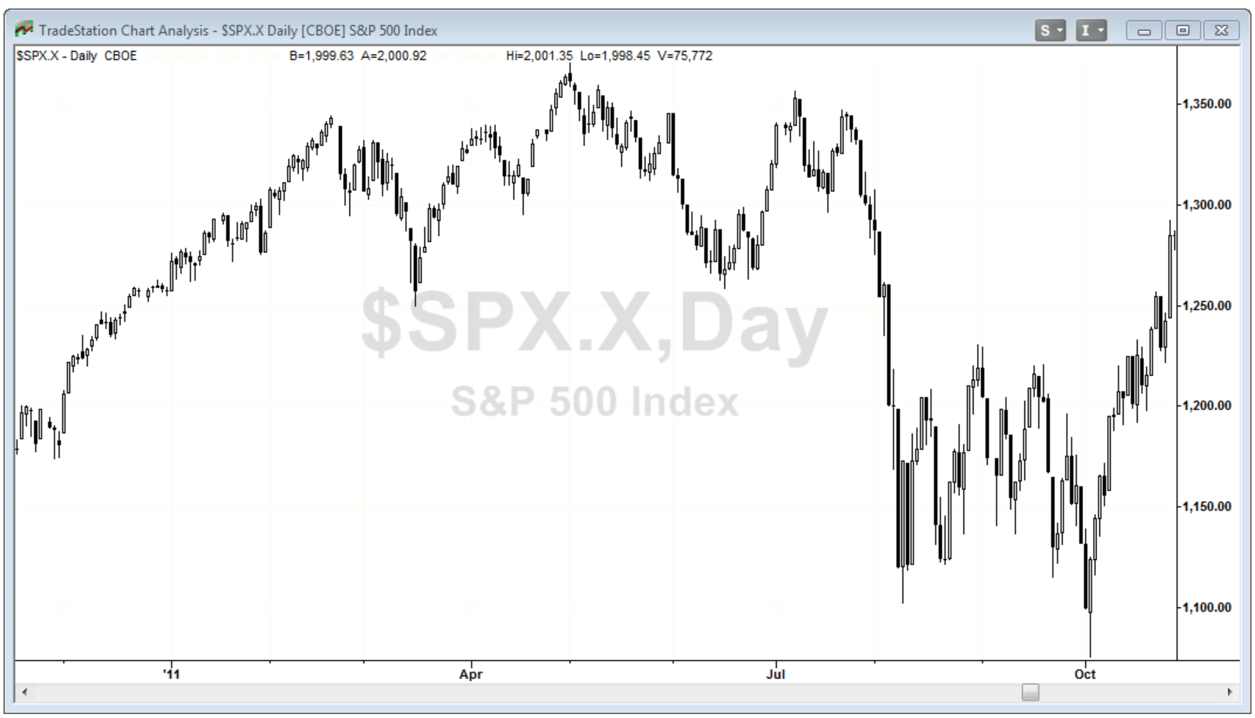
Example Five - Uptrend Moving to Consolidation

The majority of the time, markets are hell-bent on trending in one direction or another. They go as far as they can possibly go in one direction, then turn around and drive as far as possible in the opposite direction. Holy overreaction, Batman!

From time to time, however, we'll see such an extreme move in one direction that it's unsustainable - the chart will need to rest for a moment, even if it ends up moving in the opposite direction eventually. Probably the most common of these situations is where an uptrend temporarily runs out of steam and wanders into a sideways pattern or "consolidation." We're going to talk a LOT more about that in the next section of this program as we explore the concept of "energy" and markets, but for now we'll focus on this price action pattern.

In Figure 16, we have a clear, almost vertical uptrend exploding out of a larger corrective pattern:

Figure 16

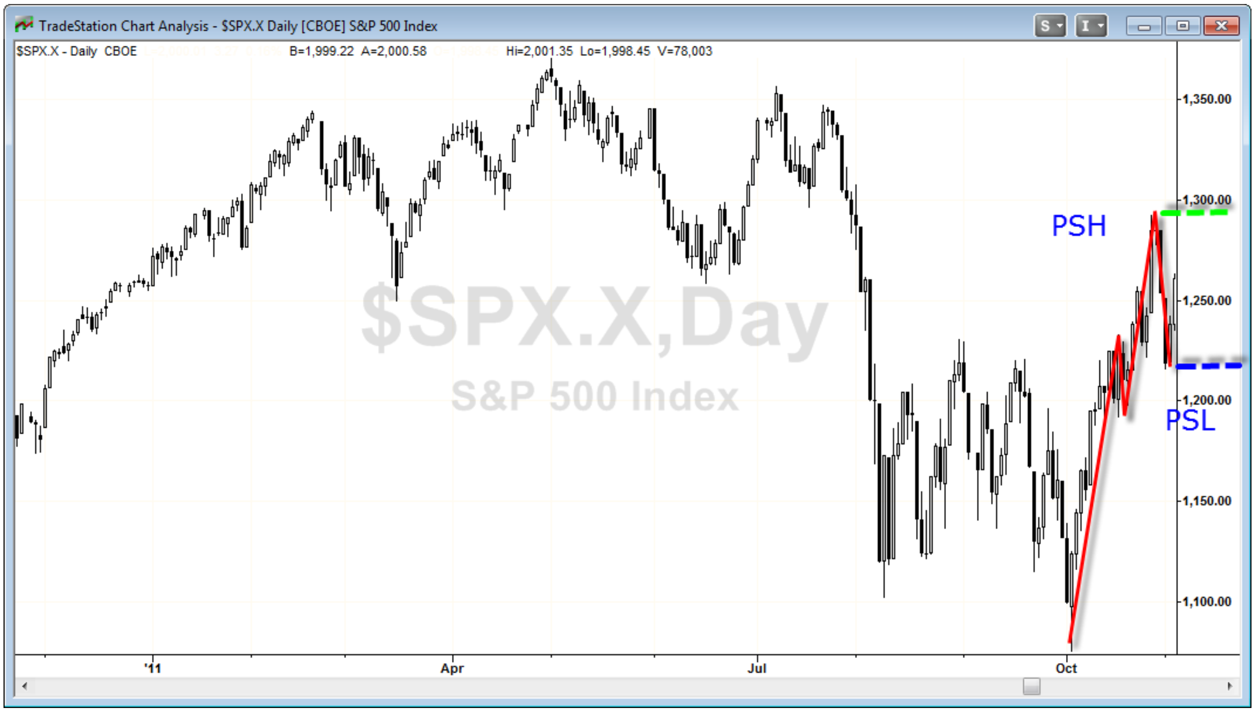


The price is clearly above the PSH's from late September and early October. Have we seen a change in polarity yet to the upside? Can we call this an uptrend? Technically no, because we haven't yet seen a "higher low", but this is very characteristic of the vertical nature of the price action in this type of move. Let's advance a couple of days and see if we get some resolution….

Update 1

At our first update we can see that the price has pulled back to a nice “higher low”… now we need to see the price break above the PSH to confirm the change in polarity.

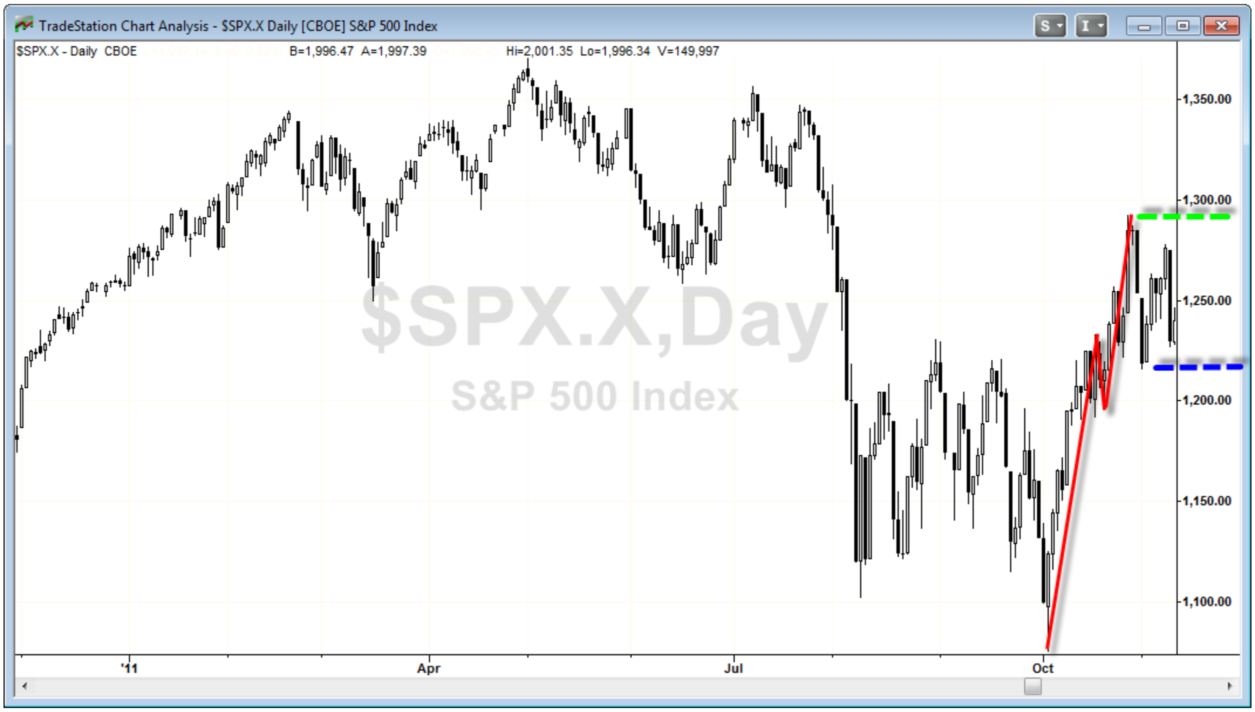
Figure 17



Update 2

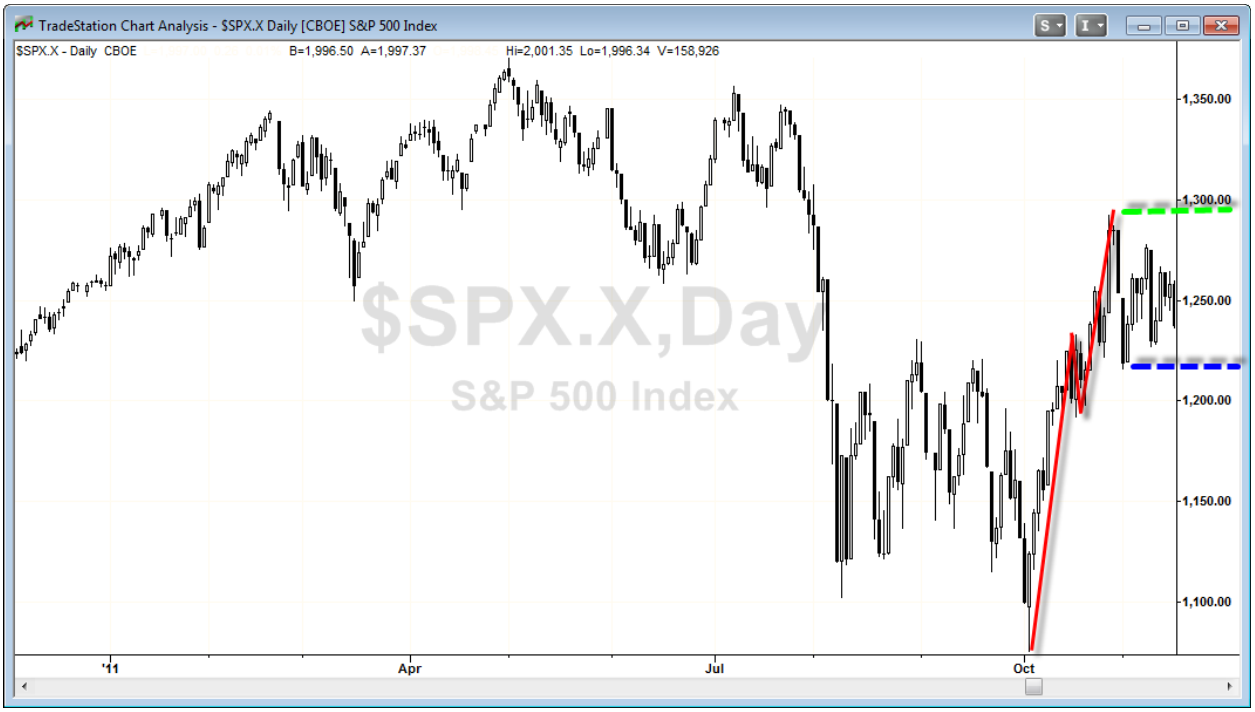
But instead of bouncing from the PSL and creating a new high above the PSH, it pulls into a “lower high” as we can see in Figure 18.

Figure 18



And this series just turns into more “lower highs” with “higher lows” as we can see in Figure 19:

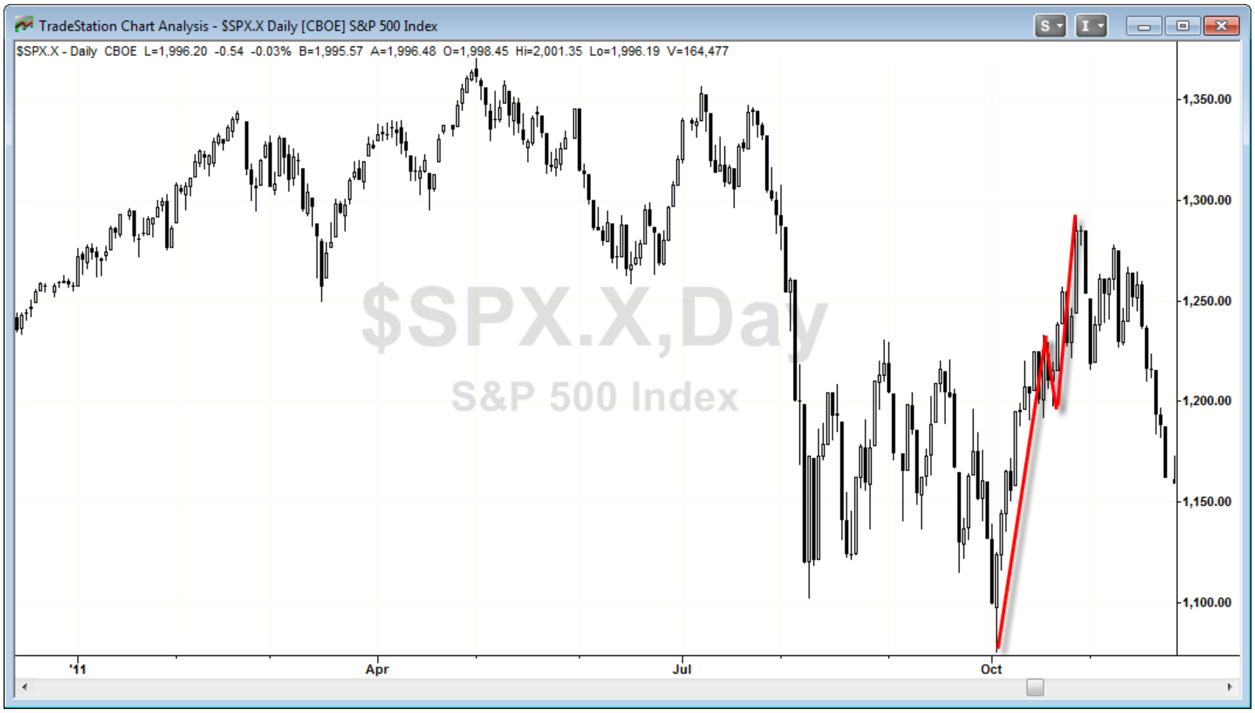
Figure 19



The price is coiling up to “consolidate” these recent gains. Will the uptrend resume or will the price break lower from here? We simply have to keep watching those green and blue lines that represent the PSH and PSL price levels. Let’s see the final outcome from this pattern:

Final Outcome

Figure 20



You can see in this chart how the price coiled up with a series of lower highs….and higher lows….(also known as a "Pennant" pattern) before it broke below that range and dropped to the downside. Is this a downtrend again? Well, yes, because we have a "lower high" to go along with a "lower low." In the big picture, however, we'll find that this is just a larger-timeframe (Weekly) swing and pullback, which we can't see right now because we're just focusing on one timeframe. And looking at the markets from multiple timeframes is what we'll focus on with the exercises in the next module.

Summary - Single Timeframe Price Action Examples

We showed several examples in this text on how we identify and track trends.

- Understand the current trend.
- “Frame in” the price action by marking swing highs and swing lows.
- Understand the levels that the price would have to “take out” to either confirm the current trend, or cause you to evaluate whether a Change of Polarity was in the process of happening.

Probably the most difficult part of the process for most traders is delineating the quick, smaller-timeframe pullbacks and moves from those of the chart that we’re interested in. When most students start this process of marking up a chart, every red candlestick is the beginning of a major downtrend to them, so it will take time and practice to train your “eye” to understand price action better.

But the payoff is worth it; once you master this technique, the Market can throw ANYTHING at you…whether it’s the 2014-2015 Bear, or the 2016-2017 screaming bull, or the 2018 Bear….and you will be able to evaluate the current trend and price levels with absolute accuracy. You won’t need to go learn some “new” system that’s the latest rage, which will fail at the next character change.

OK, now we’re about to add a lot more POWER to this system by going to multiple timeframes. Yes, it’s more difficult to keep all of those plates spinning in the air, because you’re evaluating four charts instead of one. There’s simply not a more accurate way to evaluate changes in trend that exists, that I know of.

Homework and Next Steps

Please complete the following tasks before moving to the next module:

- [ ] Watch the associated video for this module.
- [ ] Repetition is the Mother of Skill. Plan on spending at least ten hours of practice marking up a single timeframe chart's PSH's and PSL's and understanding the price levels necessary to "frame in" the price action and anticipate trend changes.